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Someone to watch over me: The integration of privacy and corporate social responsibility

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KEYWORDS

Secrecy; Privacy; Corporate social responsibility; Stakeholders Abstract Firms' relationships with key stakeholders are increasingly threatened by privacy concerns. Given the role of firm corporate social responsibility (CSR) initiatives in strengthening and enhancing these relationships, this article examines the intersection between privacy issues and CSR activities, and creates a framework for assessing privacy-related activities as an element of broader CSR strategy. Specifically, the present research considers a firm versus customer focus in privacy-related activities, as well as privacy-related activities in the form of business practices versus goods and services. We identify four areas of overlap between CSR and privacy. We highlight the potential opportunities to better manage privacy-related issues of stakeholders, and integrate these concerns into the broader CSR agenda.

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1. Introduction

I uninstalled it....Just because they "say" they aren't going to do something, doesn't make it so. History shows otherwise with FB...not to be trusted.

J.S. (Posted on LinkedIn)

The above posting expresses concerns over consumer privacy in response to Facebook separating its messenger service from the rest of its social media platform. It illustrates that privacy-related concerns are a major challenge for managers. In an

attempt to maintain relationships with key stakeholders, managers are increasingly responding to concerns about privacy. For example, in response to several high profile security breaches of credit card data, Consumers Union called for retailers to step up protection of customer data ("Recent Data Breaches," 2014). Policy makers are similarly concerned, with the FTC working with advocacy groups and associations such as the Interactive Advertising Bureau to implement online privacy laws to protect children (Bachman, 2013). These emerging issues, when added to the traditional need to protect trade secrets through the supply chain, have led scholars working in this area to identify privacy as a leading stakeholder management issue for decades to come (Hannah, Parent, Pitt, & Berthon, 2014; Pavlou, 2011; Smith, Milberg, & Burke, 1996). Firms that proactively address privacy concerns can enhance

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stakeholder relationships, whereas those that ignore the issue risk their deterioration.

Despite its importance, privacy is mostly absent from research on corporate social responsibility (CSR). This is surprising given that CSR activities are a primary means by which firms maintain and enhance relationships with stakeholders. By engaging in CSR activities, firms demonstrate concern for the well-being of stakeholders, and therefore enjoy such benefits as increased customer loyalty and willingness to pay (e.g., Creyer & Ross, 1996; Du, Bhattacharya, & Sen, 2007), preference and loyalty from employees (Turban & Greening, 1997), fewer attributions of blame for corporate crises (e.g., Klein & Dawar, 2004; Peloza, 2006), and favorable treatment from governments and legislators (Burke & Logsdon, 1996).

Although CSR activities are identified as encompassing a broad range of stakeholders through a broad range of firm initiatives (e.g., charity donations, carbon reductions), the potential for privacy-related activities to enhance CSR objectives remains unstudied. We define a privacy-related activity as an activity undertaken by the firm to maintain or exploit confidential information. Our purpose is to provide a framework for assessing privacy-related activities by the firm as an element of broader CSR strategy.

We incorporate dimensions from both the privacy and CSR literatures to produce a framework that considers the focus (customers vs. the firm) and form (business practice vs. goods and services) of the privacy-related activity. For example, past research often considers privacy-related activities initiated with a focus on the customers, such as when the firm takes steps to protect customer transaction data. But many privacy-related activities focus on the operations of the firm, such as the use of nondisclosure agreements and exclusivity in product innovation. Turning to the CSR literature, we differentiate privacy-related activities by examining CSR opportunities that emerge in the business practices of firms as well as the goods and services they sell to customers. For instance, firms use confidential data in the business practice of targeting promotions to identified segments and in the provision of privacy-related goods and services such as ad-blocking software.

We proceed as follows. We first explore the relevant CSR literature to understand how CSR activities can enhance stakeholder relationships and increase firm value. We then integrate privacy-related issues into the stakeholder management framework, culminating in the provision of a typology of privacy-related activities based on their potential to create firm value. Our typology provides guidance to both managers and researchers seeking to understand how to address stakeholder concerns about privacy

as well as how to integrate these activities within the broader CSR umbrella.

2. Stakeholders and corporate social responsibility

The development of CSR activities is a central means by which firms maintain and enhance relationships with stakeholders (Peloza, 2009). Maignan and Ferrell (2004) point out that CSR includes a broad range of activities that address multiple areas of stakeholder concern. They suggest that CSR "designates the duty (motivated by both instrumental and moral arguments) to meet or exceed stakeholder norms dictating desirable organizational behaviors" (p. 5).

Ferrell, Gonzalez-Padron, Hult, and Maignan (2010, p. 93) further extend the link between CSR and stakeholder management through the introduction of stakeholder orientation: "organizational culture and behaviors that induce organizational members to be continuously aware of and proactively act on a variety of stakeholder issues." Whereas a market orientation assumes that customers and competitors drive corporate actions, a stakeholder orientation requires that the firm take into account multiple stakeholder groups, including customers, employees, governments, and NGOs. This necessitates that firms prioritize a range of issues beyond short-term profit or market share goals and adopt a culture that fosters the well-being of multiple stakeholder groups.

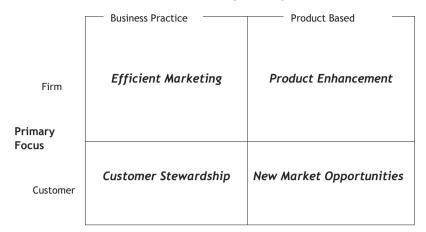
Manifesting in the form of CSR activities, many initiatives undertaken from a stakeholder orientation perspective enhance firm value. Researchers note that stakeholder relationships—and resulting reciprocation from salient stakeholders—is a key assumption that must be met for a positive financial return from CSR (Peloza, Loock, Cerruti, & Muyot, 2012). Relatedly, privacy concerns permeate virtually every stakeholder of the firm, from governments who seek to balance transparency with competitiveness, to customers and advocacy groups who seek the protection of personal data, to potential new markets necessitated by consumers' growing desires to protect their own privacy. Thus, we view privacy-related activities as one means by which a firm can signal a stakeholder orientation and subsequently enhance firm value.

3. Integrating CSR and privacy

In our integration of CSR and privacy, we utilize two key components of frameworks common to the CSR and privacy literatures, as shown in Figure 1. On the

Figure 1. A framework for privacy and CSR integration

Social Responsibility Form



vertical axis, we classify the primary focus of the privacy-related activities as either the firm or the customer. Many businesses benefit from the keeping of secrets, since such privacy allows the firm to develop inimitable competencies and thus gain or retain competitive advantages (Barney, 1991). Conversely, some privacy practices place the customer at the focal point of the activity. For example, firms may implement extraordinary security measures to protect customer data or may adopt policies that limit sharing of private customer information with others.

On the horizontal axis, we classify the form of the CSR activity as business practices or products. This distinction comes from research that suggests CSR activities create value through distinct paths depending on whether they are related to the adoption of socially responsible business practices or the integration of social responsibility principles into goods and services themselves (e.g., Peloza & Shang, 2011). For example, the use of nondisclosure agreements with suppliers as a business practice is a means by which companies ensure privacy in the supply chain. Conversely, firms can implement privacy into their products, such as the development of ad blocking software that allows customers to limit which companies have access to their search histories. The four quadrants in our framework are now discussed, with examples and a discussion of the means by which the activity creates firm or customer value.

3.1. Customer stewardship

Much research has examined how privacy-related activities can serve a customer stewardship objective for the firm. Such research often is motivated by high-profile security breaches, such as the hacking of Target's databases, which compromised the personal information of over 100 million customers. Mainstream media regularly report on firm and

government initiatives designed to ensure the protection of sensitive information. For example, Jayakumar (2014) notes certain industries that collect highly sensitive customer data, such as the healthcare sector, are on the leading edge of data protection policy. Best practices include the partitioning of highly sensitive patient data away from the general data network with regular evaluation of security controls.

Ohlhausen (2014) outlines a critical role for the Federal Trade Commission (FTC) in the development of standards for the protection of sensitive customer data. Apart from the implementation of policies to protect data, she highlights FTC actions in response to unfair privacy policies of firms. In particular, she notes cases such as Gateway Learning (Hooked on Phonics), which did not give notice to customers when it changed its privacy policy to allow the sale of customer information to third-party marketers.

Similar charges of unfair practices have been pointed at companies such as Facebook and Google, which require customers to comply with complex and confusing privacy policies (Preston, 2014). Firms that proactively adopt protection measures or impose limits on the sharing of customer data with external partners can demonstrate a stakeholder orientation and thus enhance relationships with stakeholders, including customers and governments. Indeed, Stanaland, Lwin, and Miyazaki (2011) suggest that the use of privacy trustmarks on a website (e.g., TRUSTe) can enhance customer perceptions of the firm, and lead them to view the firm as more concerned about customer privacy protection.

Implications in this quadrant of our typology are complementary to those examining other CSR activities. Research in the CSR domain suggests that the ability for a CSR activity to lead to purchase preference is equivocal, in part dependent on the way in which the beneficiary of the activity is framed.

When the primary beneficiary of the activity is the consumer, purchase preferences increase in private consumption settings, but the opposite effect occurs in public settings (Peloza, White, & Shang, 2013). When privacy-related initiatives are conceived of as a CSR activity, the same social norms are less likely to drive positive consumer responses to other-oriented appeals because there is less public good associated with privacy policies.

Another implication centers on the relative ability of privacy-related policies to develop the same degree of stakeholder orientation as other CSR activities. On one hand, CSR activities that demonstrate a firm's commitment to voluntarily working toward community improvement are related to improved financial performance when compared to activities that are perceived as simply complying with stakeholder demands (e.g., Godfrey, Merrill, & Hansen, 2009). On the other hand, research demonstrates that consumers and employees value forms of social responsibility that place their needs first (e.g., a CSR initiative that provides benefits to employees is preferred by employees over an initiative that involves donation to charity; Backhaus, Stone, & Heiner, 2002; Greening & Turban, 2000). The ability for privacy-related policies to deliver the same degree of stakeholder orientation as other, more community-oriented forms of CSR is unclear.

Another implication regarding the ability for privacy-related activities to enhance perceptions of customer stewardship concerns the degree of implementation of such policies across a broad range of firms. For example, virtually every major online retailer includes one or more trustmarks (e.g., McAfee, Better Business Bureau) in the customer interface. These images or logos are meant to assure to customers that the website is safe and secure for online shopping.

One consequence of the ubiquitous use of such trustmarks could in fact be an overall *reduction* in the perception of online security due to a lack of variance across firms. In addition, when all firms adopt such a policy, without a clear leader in the market, those firms that wish to demonstrate leadership must continually reinvest in privacy-related activities designed to demonstrate customer stewardship (Bertels & Peloza, 2008). Therefore, a greater understanding of the specific means by which privacy-related activities lead to perceptions of customer stewardship is required.

3.2. Efficient marketing

As a counterpoint to the previous section on customer stewardship, many firms view a wealth of available customer data as a competitive advantage.

The advent of 'big data' has resulted in companies having unprecedented knowledge of customer preferences and behaviors. Whereas the previous section includes the practice of selling customer data to third parties, the role of privacy in this quadrant of our typology concerns the use of information for a firm's own benefit.

For example, companies such as Amazon are known to use analytics and customer data to target promotions and cross-selling messages. In a recent move into television content, Amazon used customer behaviors to determine which content to produce beyond the pilot stage, including the number of times customers shared the content with friends (Sharma, 2013). For many consumers, there may be a recognition that cross-selling opportunities presented upon checkout from Amazon are based on previous behaviors, and thus implicitly acknowledge the company's use of behavioral data.

Other examples are more surreptitious and put the firm at reputational risk. For example, when Target famously used analytics to direct certain flyer content to specific households, critics charged the firm had gone too far (Duhigg, 2012). The firm used the shopping patterns of a female teen shopper to discern that she was pregnant. When the firm used that data to target promotions of products intended for pregnant women to the teen, critics accused the firm of overstepping the bounds of fair promotion.

The motivation behind these activities to firms is clear. Tremendous value can be created through a greater understanding of customer shopping behavior using modeling and analytics of customer data to make entire elements of the marketing mix more effective (Rapp, Hill, Gaines, & Wilson, 2009). For product development, the Amazon TV example mentioned earlier shows how firms can use customer data to develop offerings that have greater value for customers. Traditionally this was done using focus groups and test markets, but today it is being done much more discretely, with most customers unaware of their participation in ongoing product research. Thus, firms face the potential of allegations of misuse of private customer data and subsequent deterioration of stakeholder relationships.

Because the primary focus of the privacy-related activities discussed in this quadrant is on how firms can benefit, the primary CSR consideration is on the potential for firms to engage in activities that prevent deterioration of stakeholder relationships. Similar to the Target example described, when marketers use personal data to target promotions and products, there is the potential for customer backlash (Lee, Ahn, & Bang, 2011). Although the overt practices of companies that place product suggestions in front of customers (e.g., Amazon) is largely

accepted, covert practices that produce a more seamless experience for the customer are often subject to charges of customer manipulation. This dichotomy suggests that although customers accept that analytics and tracking may produce valuable insights and a more positive shopping experience, a perception of control is necessary for a positive experience (Buchholz & Rosenthal, 2002; Culnan & Bies, 2003).

Previous research distinguishes between application of the privacy policy, and associated use of information, and the policy itself (Rapp et al., 2009). This distinction needs to be examined, in particular the impact of customer awareness of privacy policies and the temporal distance between exposure to the policy and the targeted marketing activity. On one hand, a clearly articulated privacy policy delivered in close proximity to the targeted promotion may reduce the potential for customer concern. Conversely, a complex policy that is temporally distant from the promotion can result in backlash, even though the customer explicitly agreed to such promotions by accepting its terms. Ultimately, managing the tension between customers' desire for relevant products and promotion and their concerns over privacy is critical to the maintenance of a perception of stakeholder orientation for firms.

3.3. Product enhancement

For many firms, the processes and components related to product development are the most closely guarded asset. Hannah and colleagues (2014) note that trade secrets are integral to the success of billion-dollar brands like Coca-Cola and KFC, and the ability for Apple to maintain privacy in its supply chain is legendary. From a CSR perspective, these corporate secrets can meaningfully impact stakeholders and their relationships with the firm. Typically, the impact is positive for the firm, although these secrets lead to firm value through one of two paths.

In the first path, firm value is created by the exclusion of CSR information from consumers and other stakeholders. Ironically, for some product categories, CSR activities can detract from the brand, and managers are well-advised to limit their communication or even proactively work to maintain privacy. For example, research suggests that many products purchased for their strength and ruggedness suffer from the presence of information related to environmental responsibility (Luchs, Naylor, Irwin, & Raghunathan, 2010; Obermiller, Burke, Talbott, & Green, 2009). Other research finds that the efficacy of CSR information in the

enhancement of customer attitudes depends on the degree to which consumers view the brand category as driven by status and luxury. Torelli, Monga, and Kaikati (2012) find that when consumers are exposed to CSR information from luxury brands such as Rolex, their positive attitudes toward those brands decrease. The researchers suggest that consumption in luxury categories is driven by a brand self-enhancement concept, and the presence of CSR activities are counter to such value.

Firm creation of financial and social/environmental value often occurs through the private development of competencies in the supply chain. Such competencies, when developed in private, can be used to build first mover advantage that becomes inimitable by competitors. For example, BMW discretely developed a parts recycling program in Germany and was able to capture the few sophisticated operators in the dismantling infrastructure. When the effort later influenced the standards of the recapture system, the subsequent German legislation was crafted to match the unique capabilities the firm had discretely developed. Hart (1995) argues that the advantage for the firm came from both exclusive access to limited resources (e.g., raw materials) and the discrete influence over the standards themselves.

The second path by which privacy-related activities can lead to the enhancement of stakeholder relationships is through the maintenance of secrecy when there is a decided lack of CSR in the supply chain. Of course, firms that actively engage in CSR activities on product development (e.g., reduction of carbon emissions) often actively promote such activities. However, firms that have strong brands can often benefit to an even greater extent simply through a lack of transparency on the issue of social responsibility. Peloza and colleagues (2012) find that firms such as Apple, Google, Honda, and Toyota benefit from a brand halo that leads stakeholders to assume strong performance on corporate social responsibility dimensions. They find that these companies enjoy a CSR-halo despite actual CSR performance that is significantly below average for similar global firms. They suggest that if these firms were to proactively communicate their CSR engagement to stakeholders, the halo would be tarnished and firm value would suffer. This leads to the counterintuitive recommendation that managers, in these cases, should simply maintain privacy in areas such as supply chain.

The role for privacy and social responsibility in the two paths mentioned above are opposite from one another. In the first path, the challenge is to retain privacy to safeguard information related to social responsibility for customers and other stakeholders

of the firm. In the second, the challenge rests with the opportunity to introduce greater transparency in the supply chain. Therefore, future research on how privacy-related activities can lead to product enhancement should follow these paths accordingly.

For example, when examining how firms can maintain transparency in the supply chain, we should consider the impact of growing collaborative supply chains with multiple suppliers and brands effectively sharing resources (Hong, Vaidya, & Wang, 2014). The use of a shared platform in automotive manufacturing represents just such a trend. A recent joint venture between Toyota and Subaru, for instance, produces two vehicles—Scion FR-S and Subaru BRZ—that were designed simultaneously, tested together, share many major components (e.g., powertrain, body panels), and are assembled in the same facility (Robinson, 2011). Managers should consider how they can best create value and enhance stakeholder relationships as their supply chains become more collaborative. The potential for firm value creation exists through both increased transparency (e.g., reduction of costs) and increased privacy (e.g., trade secrets). How the potential for stakeholder relationships through transparency can offset a loss of benefits from secrecy is one avenue at the intersection of privacy and CSR in the supply chain.

3.4. New market opportunities

Just as consumers are increasingly concerned about firms protecting and using their personal data, a burgeoning industry is being driven by customer demand for products that allow for consumers to enhance and protect personal privacy. In a business-to-business context, privacy-related products in this quadrant of our typology lead directly to the privacy-related activities in our customer steward-ship quadrant. For example, many firms are now purchasing cloud computing services in countries other than the U.S., a trend directly addressing a perceived threat to privacy for any data stored within the United States from entities such as the National Security Agency (Haaramo, 2014).

In consumer markets, the demand for offerings that enhance privacy is also growing. In a Davos meeting at the World Economic Forum, executives and academics discussed how to turn personal data into an 'asset class' by giving people the right to manage and sell it on their own behalf (Angwin & Steel, 2011). Services that allow consumers to limit the ability for firms or other entities to track their behavior are on the rise. For example, Snapchat, which avoids many of the privacy-related concerns with venues such as Facebook, was valued at over

\$3 billion only 2 years after it launched. Ad-blocking software that allows consumers to disguise their behaviors online is becoming a major concern for marketers. One recent report found that over 22% of web surfers are blocking ads, and ad blocking is growing at a rate of 43% per year (Hill, 2013).

Because the establishment of firm value in the creation of new market opportunities is clearer than the privacy-related activities in the other quadrants, the promise for consideration in this area lies in the ability for firms to position themselves and their products as socially responsible. A looming debate on such offerings is the degree to which the provision of privacy creates social welfare. Many already charge that services such as Snapchat provide an easy avenue for illegal or otherwise questionable behaviors (Bercovici, 2014). Firms that provide such services cannot ignore the potential ethical and legal questions that will arise from their proliferation.

Firms providing products that allow consumers to protect themselves—and companies to protect their customers—can include such product-centric messages at the core of their CSR communications. For example, Toyota positions their products at the core of the annual CSR report: "Toyota will lead the way to the future of mobility, enriching lives around the world with the safest and most responsible ways of moving people" (Toyota Motor Corporation, 2013).

One promising avenue is to examine the potential for firms to position such communications as either self-serving to the customer or other-serving, providing a larger, societal benefit. Such distinctions have been used in the past to delineate how CSR messages can enhance consumer perceptions (Green & Peloza, 2014). For example, firms can directly promote the privacy benefits for the customer or the broader societal benefits that come from greater control of one's personal information and the freedoms that come with such control.

4. The path forward

This article represents the first attempt to integrate CSR and privacy. Each of these areas represents a significant business issue in its own right. Despite the potential for both privacy and CSR to greatly enhance or destroy stakeholder relationships, our typology is the first to integrate these heretofore disparate literatures. In doing so, we extend each individual literature through the lens of the other. In the case of privacy, although the literature is increasing as the issue grows in importance for firms and consumers, it has not been explicitly recognized as a means by which firms can enhance stakeholder

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relationships. Conversely, despite a growing literature examining CSR, a major concern of virtually every stakeholder—privacy—remains absent from this examination. In particular, the introduction of privacy to the CSR agenda addresses calls to more deliberately map the CSR terrain and understand how various relationship enhancing activities can create customer and firm value (Peloza & Shang, 2011).

Addressing these issues will require a greater degree of interdisciplinary consideration. Examples from the quadrants in our typology stem from many fields of academic inquiry, and greater integration of these fields will enhance the knowledge creation process. For instance, much of the knowledge that could enhance our understanding of customer stewardship has previously been isolated to fields such as information systems. Yet, when viewed through a CSR lens, the protection of customer privacy is a major means by which firms can enhance their reputation and stakeholder relationships. Thus, integration of initiatives in the fields of corporate reputation and marketing, as well as law and public policy, would facilitate and expand knowledge creation and management application. Similarly, the use of product enhancement practices to improve consumer attitudes toward a brand would benefit from greater integration in the supply chain domain, thereby bringing current best practices in supply chain to the forefront of marketing.

The potential for collaboration opportunities highlights the reality that privacy is not a marketing issue, an IT issue, or a legal issue; rather, it is an issue that pervades every functional area of the firm and requires integration across these areas. The typology presented in this article is the initial attempt to focus the knowledge creation process on specific objectives and business issues relevant to managers and scholars in both the privacy and CSR domains.

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